

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE CHESAPEAKE AND POTOMAC TELEPHONE
COMPANY

By Edward R. Kingman, Jr.
Edward R. Kingman, Jr.
(Controller)

March 26, 1992

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Principal Executive Officer:

DELANO E. LEWIS President and
 Chief Executive
 Officer

Principal Financial Officer
and Controller:

Edward R. Kingman Controller

Directors:

Joseph T. Ambrozy
James G. Banks
Vincent C. Burke, Jr.
S. L. Foggie
Gilbert M. Grosvenor
E. K. Hoffman
Franklin G. Jennifer
Delano E. Lewis
Eduardo Pena, Jr.
Lois D. Rice
Lee A. Satterfield
Jean H. Sisco

By Edward R. Kingman, Jr.
Edward R. Kingman, Jr.
(individually and as
attorney-in-fact
March 26, 1992

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

	<u>Page</u>
Report of Management.....	F-2
Report of Independent Accountants.....	F-3
Statements of Income and Reinvested Earnings..... For the years ended December 31, 1991, 1990 and 1989	F-4
Balance Sheets - December 31, 1991 and 1990.....	F-6
Statements of Cash Flows..... For the years ended December 31, 1991, 1990 and 1989	F-8
Notes to Financial Statements.....	F-9
Schedule V - Plant, Property and Equipment..... For the years ended December 31, 1991, 1990 and 1989	F-21
Schedule VI - Accumulated Depreciation..... For the years ended December 31, 1991, 1990 and 1989	F-25
Schedule VIII - Valuation and Qualifying Accounts..... For the years ended December 31, 1991, 1990 and 1989	F-26
Schedule X - Supplementary Income Statement Information. For the years ended December 31, 1991, 1990, and 1989	F-27

Financial statement schedules other than those listed above have been omitted either because the required information is contained in the financial statements and the notes thereto, or because such schedules are not required or applicable.

REPORT OF MANAGEMENT

The management of The Chesapeake and Potomac Telephone Company is responsible for the information and representations contained in this annual report. Management believes that the financial statements have been prepared in conformity with generally accepted accounting principles and that the information in this annual report is consistent with those statements. Management is required to include in the financial statements amounts primarily related to matters not concluded by year-end, that are based on management's best estimates and judgements.

In meeting its responsibility for the financial statements of the Company, management maintains a strong internal control structure, including the appropriate control environment, accounting systems and control procedures. The internal control structure is designed to provide reasonable assurance that assets are safeguarded from unauthorized use or disposition, that transactions are properly recorded and executed in accordance with management's authorizations and that the financial records permit the preparation of reliable financial statements. There are, however, inherent limitations that should be recognized in considering the assurances provided by the internal control structure. The concept of reasonable assurance recognizes that the costs of the internal accounting control structure should not exceed the benefits to be derived. The internal control structure is reviewed and evaluated on a regular basis. Compliance is monitored by the internal auditors through an annual plan of internal audits.

The Board of Directors pursues its review and oversight role for these financial statements through an Audit Committee composed of three outside directors. The Audit Committee's duties include recommending to the Board of Directors the appointment of an independent accounting firm to audit the financial statements of the Company. The Audit Committee meets periodically with management and the Board of Directors. It also meets with representatives of the internal and independent auditors and reviews the work of each to ensure that their respective responsibilities are being carried out and to discuss related matters. Both the internal and independent auditors have direct access to the Audit Committee.

The Company's financial statements have been audited by Coopers & Lybrand, independent accountants, whose report is included on the following page.

Edward R. Kingman, Jr.
Controller

REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Directors and Shareowner of
The Chesapeake and Potomac Telephone Company

We have audited the financial statements and the financial statement schedules of The Chesapeake and Potomac Telephone Company listed in the index on page F-1 of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Chesapeake and Potomac Telephone Company as of December 31, 1991 and 1990, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1991 in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

As discussed in Notes 1 and 7 to the Financial Statements, the Company changed its method of accounting for postretirement benefits other than pensions in 1991.

COOPERS & LYBRAND

Washington, D.C.
February 5, 1992

The Chesapeake and Potomac
Telephone Company

STATEMENTS OF INCOME AND REINVESTED EARNINGS

	Dollars in Thousands		
	For the years ended December 31,		
	1991	1990	1989
OPERATING REVENUES			
Local service.	\$272,840	\$266,390	\$253,291
Network access	134,376	135,785	134,870
Toll service	5,928	4,664	3,983
Directory advertising and other	135,654	131,623	117,659
Provision for uncollectibles	(6,125)	(3,364)	(3,242)
	<u>542,673</u>	<u>535,098</u>	<u>506,561</u>
OPERATING EXPENSES			
Employee costs, including benefits and taxes.	151,815	145,824	160,640
Depreciation and amortization.	96,503	92,160	93,827
Taxes other than income.	37,088	31,790	30,741
Other.	<u>162,696</u>	<u>164,744</u>	<u>137,163</u>
	<u>448,102</u>	<u>434,518</u>	<u>422,371</u>
Net operating revenues.	<u>94,571</u>	<u>100,580</u>	<u>84,190</u>
OPERATING INCOME TAXES			
Federal	18,310	20,247	13,625
State and local.	<u>7,937</u>	<u>9,082</u>	<u>6,622</u>
	<u>26,247</u>	<u>29,329</u>	<u>20,247</u>
Operating income.	<u>68,324</u>	<u>71,251</u>	<u>63,943</u>
OTHER INCOME (EXPENSE)			
Allowance for funds used during construction	218	463	761
Miscellaneous - net.	<u>(795)</u>	<u>(1,012)</u>	<u>(295)</u>
	<u>(577)</u>	<u>(549)</u>	<u>466</u>
INTEREST EXPENSE	<u>21,135</u>	<u>20,796</u>	<u>21,014</u>
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	46,612	49,906	43,395
CUMULATIVE EFFECT OF ACCOUNTING PRINCIPLE CHANGES IN ACCOUNTING FOR EMPLOYEE BENEFITS Other than change in accounting for employee benefits (net of income tax benefits of \$14,927).	<u>(79,725)</u>	<u>-</u>	<u>-</u>
NET INCOME (LOSS).	<u>\$ (33,113)</u>	<u>\$ 49,906</u>	<u>\$ 43,395</u>

The accompanying notes are an integral part of these financial statements.

The Chesapeake and Potomac
Telephone Company

STATEMENTS OF INCOME AND REINVESTED EARNINGS

	<u>Dollars in Thousands</u>		
	<u>For the years ended December 31.</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
REINVESTED EARNINGS			
At beginning of year	\$104,676	\$ 88,960	\$ 88,708
Add: Net income (loss).	<u>(33,113)</u>	<u>49,906</u>	<u>43,395</u>
	71,563	138,866	132,103
Deduct: Dividends	34,329	34,165	43,120
Other changes	<u>-</u>	<u>25</u>	<u>23</u>
At end of year	<u>\$ 37,234</u>	<u>\$104,676</u>	<u>\$ 88,960</u>

The accompanying notes are an integral part of these financial statements.

The Chesapeake and Potomac
Telephone Company

BALANCE SHEETS

	<u>Dollars in Thousands</u>	
	<u>December 31,</u> <u>1991</u>	<u>December 31,</u> <u>1990</u>
ASSETS		
CURRENT ASSETS		
Accounts receivable:		
Customers and agents, net allowances for uncollectibles of \$6,547 and \$2,165.....	\$ 123,822	\$ 126,475
Parent and affiliates.....	11,822	4,552
Other	20,681	19,868
Material and supplies.....	2,253	2,906
Prepaid expenses	3,290	1,382
Deferred income taxes.....	5,542	3,199
Deferred charges	<u>13,333</u>	<u>11,371</u>
	<u>180,743</u>	<u>169,753</u>
PLANT, PROPERTY AND EQUIPMENT - at cost		
In service	1,395,543	1,360,215
Under construction and other	<u>13,723</u>	<u>14,152</u>
	1,409,266	1,374,367
Accumulated depreciation	<u>(617,458)</u>	<u>(595,876)</u>
	<u>791,808</u>	<u>778,491</u>
DEFERRED CHARGES AND OTHER ASSETS.....	<u>28,531</u>	<u>17,558</u>
TOTAL ASSETS	<u>\$1,001,082</u>	<u>\$ 965,802</u>

The accompanying notes are an integral part of these financial statements

The Chesapeake and Potomac
Telephone Company

	Dollars in Thousands	
	December 31, 1991	December 31, 1990
LIABILITIES AND SHAREOWNER'S INVESTMENT		
CURRENT LIABILITIES		
Debt maturing within one year:		
Affiliate.....	\$ 29,100	\$ -
Other.....	1,513	1,852
Accounts payable:		
Parent and affiliates	47,551	45,380
Other	55,409	48,435
Accrued expenses:		
Vacation pay	10,109	10,460
Taxes	4,558	5,978
Interest	3,911	2,696
Other	10,476	24,908
Accrued dividends	-	11,049
Advance billing and customer deposits	8,784	10,614
	<u>171,411</u>	<u>161,372</u>
LONG-TERM DEBT	<u>241,076</u>	<u>242,183</u>
DEFERRED CREDITS		
Deferred income taxes	110,854	159,727
Unamortized investment tax credits	23,559	25,549
Employee benefit obligations.....	134,652	-
Other	32,328	22,327
	<u>301,393</u>	<u>207,603</u>
COMMITMENTS AND CONTINGENCIES		
SHAREOWNER'S INVESTMENT		
Common stock - one share, without par value, owned by parent	249,968	249,968
Reinvested earnings	37,234	104,676
	<u>287,202</u>	<u>354,644</u>
TOTAL LIABILITIES AND SHAREOWNER'S INVESTMENT	<u>\$1,001,082</u>	<u>\$ 965,802</u>

The accompanying notes are an integral part of these financial statements.

The Chesapeake and Potomac
Telephone Company

STATEMENTS OF CASH FLOWS

	<u>Dollars in Thousands</u>		
	<u>For the years ended December 31.</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss).....	\$ (33,113)	\$ 49,906	\$ 43,395
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	96,503	92,160	93,827
Cumulative effect of change in accounting principle.....	79,725	-	-
Provision for uncollectibles	6,125	3,364	3,242
Allowance for funds used during construction	(218)	(463)	(761)
Other items, net	342	341	318
Changes in certain assets and liabilities:			
Accounts receivable.....	(11,555)	(4,108)	(18,600)
Material and supplies	653	449	309
Prepaid expenses	(1,908)	3,658	(542)
Deferred charges and other	(12,935)	1,002	10,070
Accounts payable and accrued expenses ..	(5,842)	(5,389)	12,816
Advanced billing and customer deposits .	(1,830)	(876)	128
Deferred income taxes	3,710	10,696	960
Unamortized investment tax credits	(1,990)	(3,180)	(2,830)
Other liabilities	<u>10,001</u>	<u>7,459</u>	<u>7,985</u>
Net cash provided by operating activities.	<u>127,668</u>	<u>155,019</u>	<u>150,317</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to plant, property and equipment	(108,710)	(122,764)	(119,105)
Proceeds (payments) from disposition of plant, property and equipment, net.....	(955)	(2,578)	380
Other plant related changes	<u>170</u>	<u>(4,796)</u>	<u>(2,625)</u>
Net cash used in investing activities	<u>(109,495)</u>	<u>(130,138)</u>	<u>(121,350)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal repayments of capital leases ...	(1,895)	(1,765)	(1,955)
Net increase in note payable to affiliate.	29,100	-	-
Dividends paid	<u>(45,378)</u>	<u>(23,116)</u>	<u>(43,120)</u>
Net cash used in financing activities	<u>(18,173)</u>	<u>(24,881)</u>	<u>(45,075)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	<u>-</u>	<u>-</u>	<u>(16,108)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>16,108</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - The Chesapeake and Potomac Telephone Company (the Company), a wholly-owned subsidiary of Bell Atlantic Corporation (Bell Atlantic), maintains its accounts in accordance with the Uniform System of Accounts (USOA) prescribed by the Federal Communications Commission (FCC) and makes certain adjustments necessary to present the accompanying financial statements in accordance with generally accepted accounting principles applicable to regulated entities. Such principles differ in certain respects from those used by unregulated entities, but are required to appropriately reflect the financial and economic impacts of regulation and the ratemaking process. Significant differences resulting from the application of these principles are disclosed elsewhere in these Notes to Financial Statements where appropriate.

CASH AND CASH EQUIVALENTS - The Company considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

The Company makes certain payments by draft and records such drafts as accounts payable until such time as the banks have presented them for payment.

MATERIAL AND SUPPLIES - New and reusable materials are carried in inventory, principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

PLANT AND DEPRECIATION - The Company's provision for depreciation is based principally on the remaining life method of depreciation and straight-line composite rates. This method provides for the recovery of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining service lives authorized by federal and state regulatory authorities. Depreciation expense also includes amortization of certain classes of telephone plant and certain identified depreciation reserve deficiencies over periods authorized by regulatory authorities.

When depreciable plant is replaced or retired, the amounts at which such plant has been carried in plant, property and equipment accounts are removed from the respective accounts and charged to accumulated depreciation. Any gains or losses on disposition are amortized over the remaining service lives of the remaining net investment in telephone plant.

MAINTENANCE AND REPAIRS - The cost of maintenance and repairs of plant, including the cost of replacing minor items not constituting substantial betterments, is charged to operating expense.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION - Regulatory authorities allow the Company to record an allowance for funds used during construction, which includes both interest and equity return components, as a cost of plant and as an item of other income. Such income is not recovered in cash currently but will be recoverable over the service life of the plant through higher depreciation expense recognized for regulatory purposes.

EMPLOYEE RETIREMENT BENEFITS

Pension Plans - Substantially all employees of the Company are covered under non-contributory multi-employer retirement plans sponsored by Bell Atlantic and its subsidiaries, including the Company. Amounts contributed to the Company's pension plans are actuarially determined under the aggregate cost method, and are subject to applicable federal income tax regulations.

Postretirement Benefits Other Than Pensions - Effective January 1, 1991, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement of Financial Accounting Standards Board, SFAS No. 106), which prescribes accrual methods for the company's obligation for postretirement benefits. It is to be fully accrued for the donee employees arising from the liability for such benefits. Prior to January 1, 1991, the cost of health benefits for management, including various life and medical insurance claims, to employees as they were incurred, was charged to the current and future associated with the employees. The cost of postretirement health insurance benefits was also recognized as determined under the aggregate cost actuarial method.

The Company makes contributions to a retiree health care trust for associate employees. Contributions to the trust are made from the Company's general fund and are limited to amounts permitted under Internal Revenue Service rules for determining deductibility.

The Company annually funds an amount for life insurance benefits that is determined using the aggregate cost actuarial method.

INCOME TAXES - Bell Atlantic and its domestic subsidiaries, including the Company, file a consolidated federal income tax return. The consolidated income tax currently payable is allocated in accordance with each subsidiary's contribution to consolidated taxable income and tax credits.

Deferred income taxes are generally provided to reflect the effect of timing differences in the recognition of revenue and expense for financial and income tax reporting purposes.

The Tax Reform Act of 1986 repealed the Investment Tax Credit (ITC) as of January 1, 1986, subject to certain transitional rules. Realized ITCs were deferred and are being amortized to income over the estimated service lives of the related assets.

Reclassifications - Certain reclassifications of prior years' data have been made to conform to 1991 classifications.

(2) LONG-TERM DEBT

Long-term debt consists principally of debentures issued by the Company. Interest rates and maturities of the amounts outstanding at December 31 are as follows:

	<u>Dollars in Thousands</u>	
	<u>1991</u>	<u>1990</u>
Thirty-seven year 4 3/8%, due 1998	\$ 20,000	\$ 20,000
Forty year 5 5/8%, due 2006.	25,000	25,000
Forty year 7%, due 2009.	50,000	50,000
Forty year 7 3/4%, due 2013.	60,000	60,000
Forty year 9 3/8%, due 2026.	<u>90,000</u>	<u>90,000</u>
	245,000	245,000
Capital lease obligations, average rate 9.97% and 10.00%	5,999	7,773
Unamortized discount and premium - net . .	<u>(8,410)</u>	<u>(8,738)</u>
	242,589	244,035
Less maturing within one year.	<u>1,513</u>	<u>1,852</u>
Total	<u>\$241,076</u>	<u>\$242,183</u>

All long-term debt outstanding at December 31, 1991 is callable by the Company. The call prices of these debentures range from 107.7% to 100.3% of face value, depending on the remaining life to maturity of the issue.

(3) DEBT MATURING WITHIN ONE YEAR

Debt maturing within one year consists of the following at December 31:

	<u>Dollars in Thousands</u>			<u>Weighted Average Interest Rates</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>	<u>1991</u>	<u>1990</u>	<u>1989</u>
Note Payable - Affiliate	\$29,100	-	-	4.50%	-	-
Capital lease obligations	<u>\$ 1,513</u>	<u>\$ 1,852</u>	<u>\$1,585</u>	9.97%	10.00%	10.16%
Total	<u>\$30,613</u>	<u>\$ 1,852</u>	<u>\$1,585</u>			
Average amounts of notes payable outstanding during the year*.....	<u>\$26,923</u>	<u>\$ 6,670</u>	<u>\$ 432</u>	6.03%	8.16%	9.48%
Maximum amounts of notes payable at any month-end during the year.....	<u>\$47,108</u>	<u>\$17,150</u>	<u>\$ -</u>			

* Amounts represent average daily face amounts of notes. Weighted average interest rates are computed by dividing such amounts into the aggregate related interest expense.

At December 31, 1991, the Company had an unused line of credit balance of \$95.9 million with an affiliate, Bell Atlantic Network Funding Corporation (See Note 12 of Notes to Financial Statements).

(4) ACCOUNTING FOR RESTRUCTURING AND OTHER CHARGES

In 1991, Bell Atlantic and the Company offered a retirement incentive program to eligible management employees electing early retirement. Approximately 80 managers retired from the Company under this program. As a result, income before cumulative effect of accounting change for 1991 was reduced by \$351,000 for special termination benefits and related costs. These costs are primarily included as other operating expenses in the Statements of Income.

As a result of labor negotiations completed in 1989, Bell Atlantic established a retiree health care trust for associate employees of its telephone subsidiaries, including the Company. In connection with the establishment of the trust, the Company changed its method of accounting for post-retirement health care benefits for these employees from a pay-as-you-go basis to an actuarially determined accrual basis, effective January 1, 1989. This change in accounting reduced net income for 1989 by \$4,030,000.

Net income for 1989 was reduced by \$3,095,000 as a result of costs associated with special severance and enhanced early retirement programs for management employees, and the consolidation of certain Company facilities. These costs are included as operating expenses in the Statement of Income and Reinvested Earnings.

(5) LEASES

The Company has entered into both capital and operating leases for facilities and equipment used in the Company's operations. In 1991, 1990 and 1989, the Company incurred initial capital lease obligations of \$76,000, \$1,226,000, and \$4,203,000, respectively.

Total rent expense amounted to \$15,393,000 in 1991, \$10,224,000 in 1990 and \$11,002,000 in 1989.

At December 31, 1991, the approximate aggregate minimum rental commitments under non-cancelable leases for the periods shown are as follows:

<u>Years</u>	<u>Dollars in Thousands</u>	
	<u>Capital Leases</u>	<u>Operating Leases</u>
1992	\$ 2,139	\$ 3,407
1993	1,970	3,177
1994	1,141	1,388
1995	1,028	290
1996	1,028	290
Thereafter	<u>121</u>	<u>1,426</u>
Total	7,427	<u>\$ 9,978</u>

Less imputed interest and executory costs	<u>1,428</u>
Present value of net minimum lease payments	5,999
Less current installments	<u>1,513</u>
Long-term obligation at December 31, 1991	<u>\$ 4,486</u>

(6) INCOME TAXES

The components of operating income tax expense are as follows:

	<u>Dollars in Thousands</u>		
	<u>Years Ended December 31,</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Federal:			
Current	\$ 19,209	\$17,019	\$16,593
Deferred, net	1,422	6,408	(138)
Investment tax credits.	<u>(2,321)</u>	<u>(3,180)</u>	<u>(2,830)</u>
	<u>18,310</u>	<u>20,247</u>	<u>13,625</u>
State and Local:			
Current	7,583	5,845	5,739
Deferred, net	<u>354</u>	<u>3,237</u>	<u>883</u>
	<u>7,937</u>	<u>9,082</u>	<u>6,622</u>
Total	<u>26,247</u>	<u>\$29,329</u>	<u>\$20,247</u>

Income tax expense (benefits) which relate to non-operating income and expense and are included in Other Income Miscellaneous - net were (\$352,000), (\$450,000), and \$333,000, in 1991, 1990 and 1989, respectively. The deferred tax benefit related to the cumulative effect of the change in accounting principle was \$54,927,000.

The components of deferred income tax expenses (benefits) are as follows:

	<u>Dollars in Thousands</u>		
	<u>Years Ended December 31,</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Accelerated depreciation.....	\$ 4,231	\$12,009	\$ 3,650
Employee benefits.....	(1,892)	(2,460)	(626)
Other, net.....	<u>(563)</u>	<u>96</u>	<u>(2,279)</u>
Total.....	<u>\$ 1,776</u>	<u>\$ 9,645</u>	<u>\$ 745</u>

As a result of the adoption of the revised USOA prescribed by the Federal Communications Commission, effective January 1, 1988, deferred taxes must be provided for interstate ratemaking on all future book/tax timing differences. Prior to 1988, the Company did not record deferred taxes on timing differences for which deferred tax expense was not allowed for ratemaking purposes.

The cumulative net amount of income tax timing differences for which deferred taxes have not been provided pursuant to the ratemaking process amounted to approximately \$24,273,000 and \$26,977,000 at December 31, 1991 and 1990, respectively. These timing differences related principally to allowance for funds used during construction and certain taxes and payroll-related construction costs which were capitalized for financial statement purposes, but were deducted currently for income tax purposes, net of applicable depreciation.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109), in February 1992. The Company will be required to adopt Statement No. 109 by 1993. Statement No. 109 will require the calculation of deferred taxes using the liability method. Under the liability method, deferred tax balances must be adjusted to reflect enacted changes in income tax rates, and deferred taxes must be provided on all book/tax basis differences.

Presently, deferred taxes are recorded at income tax rates that were in effect at the time the related timing difference arose. In addition, regulated companies only record deferred taxes on timing differences which regulators recognize in the ratemaking process. Since regulators have not changed the manner in which these tax effects are treated for ratemaking purposes, when Statement No. 109 is adopted, the income effects of the required adjustments to deferred tax balances will be recorded on the balance sheet as regulatory assets or liabilities in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effect of Certain Types of Regulation". (Statement No. 71). Absent changes in the regulatory treatment of deferred taxes, there will be no material impact on net income upon adoption of Statement No. 109.

The provision for income tax varies from the amount computed by applying the statutory federal income tax rate to income before provision for income taxes and cumulative effect of accounting change. The difference is attributable to the following factors:

	<u>Years ended December 31,</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Statutory federal income tax rate.	34.0%	34.0%	34.0%
Investment tax credits	(3.8)	(4.0)	(4.4)
State and local income taxes, net of federal income tax benefits	7.2	7.5	6.9
Benefit of rate differential applied to reversing timing differences	(3.8)	(6.0)	(5.2)
Reversal of previously capitalized interest, taxes and payroll-related construction costs	1.5	1.7	2.0

The Chesapeake and Potomac
Telephone Company

	<u>Years ended December 31.</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Prior year tax adjustment.	-	-	(3.8)
Other, net	<u>.6</u>	<u>3.5</u>	<u>2.7</u>
Effective tax rate before cumulative effect of change in accounting principle	<u>35.7%</u>	<u>36.7%</u>	<u>32.2%</u>

Prior to 1984, the Company was included in AT&T's consolidated Federal income tax returns. These returns have been examined by the Internal Revenue Service (IRS), and all issues including the summary assessment issue discussed below have been settled.

During 1987, the IRS made a summary assessment requiring Bell Atlantic's telephone subsidiaries to pay a total of approximately \$65 million in tax and interest related to certain contested issues for the years 1979 and 1980. This payment (\$2.8 million of which was the Company's share) has been recorded as a current deferred charge. In January 1992, the Company was officially notified that the IRS has decided the matter as petitioned by Bell Atlantic, and a refund of the summary assessment is expected in 1992.

(7) EMPLOYEE BENEFITS

Pension Plans - Substantially all of the Company's management and associate employees are covered under noncontributory multiemployer pension and death benefit plans sponsored by Bell Atlantic and certain of its subsidiaries, including the Company. The pension benefit formula is based on a flat dollar amount per year of service according to job classification under the associate employees' plan and a stated percentage of adjusted career average income under the plans for management employees. The Company's objective in funding the plans is to accumulate funds at a relatively stable rate over participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and nondomestic corporate equity securities, U.S. Government and corporate debt securities and real estate.

Aggregate pension costs for the plans are as follows:

	<u>Dollars in Thousands</u>		
	<u>Years ended December 31.</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Current year cost	<u>\$5.427</u>	<u>\$5.624</u>	<u>\$5.739</u>
Percentage of salaries and wages	<u>4.0%</u>	<u>4.3%</u>	<u>4.5%</u>

The decrease in pension cost from 1990 to 1991 was primarily due to changes in plan provisions, actuarial assumptions and demographic and investment experience.

During 1991, the Company offered a retirement incentive program to eligible management employees electing early retirement. The cost of this program's special termination benefits, which is included in 1991 pension cost, is approximately \$351,000.

The decrease in pension cost in 1989 was primarily due to the changes of actuarial assumptions, offset primarily by plan amendments.

Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (Statement No. 87) requires a comparison of the actuarial present value of projected benefit obligations with the fair value of plan assets, the disclosure of the components of net periodic pension cost and a reconciliation of the funded status of the plans with amounts recorded on the balance sheet. Such disclosures are not presented for the Company because the structure of the Bell Atlantic plans does not allow for the determination of this information on an individual company basis.

The assumed discount rate used to measure the projected benefit obligation was 7.75% at December 31, 1991 and 8.0% at December 31, 1990. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1991 and 1990. The expected long-term rate of return on plan assets was 7.5% for 1991, 1990, and 1989.

The Company has in the past, entered into labor negotiations with the unions representing certain employees and expects to do so in the future. Pension benefits have been included in these negotiations and improvements in benefits have been made from time to time. Additionally, the Company has amended the benefit formula under pension plans maintained for its management employees. Expectations with respect to future amendments to the Company's pension plans have been reflected in determining the Company's pension cost under Statement No. 87.

~~Postretirement Benefits Other Than Pensions~~ / Effective January 1, 1991, the Company has adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," (Statement No. 106). Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Company's obligation for these postretirement benefits is to be fully accrued by the date the employees attain full eligibility for such benefits. Prior to the adoption of Statement No. 106, the cost of health benefits for management retirees was recognized by charging claims to expense as they were incurred. The cost of health benefits for current and future associate retirees was recognized as determined under the aggregate cost actuarial method. The cost of postretirement life insurance benefits was also recognized as determined under the aggregate cost actuarial method.

In conjunction with the adoption of Statement No. 106, for financial reporting purposes, the Company elected to immediately recognize the accumulated postretirement benefit obligation for current and future retirees, net of the fair value of plan assets and recognized accrued postretirement benefit cost (transition obligation) in the amount of \$134,652,000, net of a deferred income tax benefit of \$54,926,500. On December 26, 1991, the FCC released an order permitting adoption of

~~Statement~~ No. 106 on or before January 1, 1993. The FCC order permits amortization of the transition obligation over the average remaining service period of active employees for interstate regulatory accounting purposes. Pursuant to Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain types of Regulation," (Statement No. 71) a regulatory asset associated with the recognition of the transition obligation was not recorded because of uncertainties as to the timing and extent of recovery given the Company's assessment of its long-term competitive environment.

Substantially all of the Company's management and associate employees are covered under postretirement health and life insurance benefit plans sponsored by Bell Atlantic and certain of its subsidiaries, including the Company. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in determination of postretirement benefit cost is primarily based on annual basic pay at retirement.

The Company funds for postretirement health benefits for associate employees and postretirement life insurance benefits for associate and management employees. The Company's objective in funding these plans is to accumulate funds at a relatively stable rate over participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and nondomestic corporate equity securities, and U.S. Government and corporate debt securities.

In 1991, the aggregate cost of postretirement health and life insurance benefits was \$11,875,000.

Statement No. 106 requires a comparison of the actuarial present value of the accumulated postretirement benefit obligation with the fair value of plan assets, the disclosure of the components of the net periodic postretirement benefit costs, and a reconciliation of the funded status of the plans with the amount recorded on the balance sheet. Such disclosures are not presented for the Company because the structure of the Bell Atlantic plans does not allow for the determination of this information on an individual company basis.

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.75% at December 31, 1991 and 8.0% at January 1, 1991. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1991 and 1990. The expected long-term rate of return on plan assets was 7.5% for 1991. The medical costs trend rate in 1991 was approximately 15.0%, grading down to an ultimate rate in 2003 of approximately 5.0%. The dental cost trend rate in 1991 and thereafter is approximately 4.0%.

Certain postretirement benefits other than pensions have been included in labor negotiations described above, and such benefits have been modified from time to time. Additionally, the Company has amended the benefits under postretirement benefit plans maintained for its management employees. Expectations with respect to certain future amendments to the Company's postretirement benefit plans have been reflected in determining the

Company's postretirement benefit cost under Statement No. 106.

During 1990 and 1989, the cost of postretirement health care benefits was \$9,202,000 and \$11,627,000 respectively. In addition, the Company recognized postretirement life insurance benefit cost for 1990 and 1989 in the amounts of \$167,000 and \$439,000, respectively.

(8) SUPPLEMENTAL CASH FLOW AND ADDITIONAL FINANCIAL INFORMATION

	<u>Dollars in Thousands</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Supplemental cash flow information:			
Interest paid.	<u>\$21.139</u>	<u>\$23.032</u>	<u>\$19.903</u>
Income taxes paid	<u>\$27.011</u>	<u>\$22.956</u>	<u>\$23.089</u>
Non-cash financing transactions:			
Dividends declared but unpaid.	<u>\$ -</u>	<u>\$11.049</u>	<u>\$ -</u>
Depreciation as a percentage of average depreciable plant.	<u>7.00%</u>	<u>7.00%</u>	<u>7.53%</u>
Other operating taxes:			
Property	\$ 5,251	\$ 4,594	\$ 4,169
Gross receipts	29,510	23,853	22,644
Other.	2,327	3,343	3,928
Total.	<u>\$37.088</u>	<u>\$31.790</u>	<u>\$30.741</u>
Interest expense:			
Interest on long-term debt	\$19,963	\$20,124	\$20,205
Interest on note payable to affiliate . .	1,587	540	31
Interest on other notes payable	-	-	10
Other.	(415)	132	768
Total.	<u>\$21.135</u>	<u>\$20.796</u>	<u>\$21.014</u>

For the years ended December 31, 1991, 1990 and 1989, revenues generated from services provided to AT&T, principally network access, billing and collection, and sharing of network facilities, comprised approximately 11%, 12% and 15%, respectively, of total operating revenues. Revenues from services provided to the U. S. Government were approximately 12%, 13% and 10% of total revenues in 1991, 1990 and 1989, respectively.

The Company provides billing and collection services to Interexchange Carriers (IXCs). To provide these services, the Company and the IXCs enter into contracts under which the Company purchases the related IXCs' customer accounts receivable. The largest purchaser of this service is AT&T. At December 31, 1991 and 1990, accounts receivable included \$11,478,000 and \$9,454,000, respectively (net of allowances for uncollectibles of \$2,477,000 and \$835,000) of receivables purchased from AT&T. Accounts payable included corresponding amounts owed to AT&T for such receivables.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of trade receivables with AT&T, as noted above, and with agencies of the U.S. Government. Credit risk with respect to other trade receivables is limited due to the large number of customers included in the Company's customer base.

The Company makes certain payments by draft and records such drafts as accounts payable until such time as the banks have presented them for payment. The amount of such drafts outstanding at December 31, 1991 and 1990 were \$295,000 and \$3,999,000, respectively.

At December 31, 1991 and 1990, \$2,067,000 and \$3,442,000, respectively, of negative cash balances were classified as accounts payable.

(9) QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

<u>Dollars in Thousands</u>				
<u>Quarter</u>	<u>Total Operating Revenues</u>	<u>Net Operating Revenues</u>	<u>Income before Cumulative Effect of Change in Accounting Principle</u>	<u>Net Income (Loss)</u>
<u>1991</u>				
1st.	\$132,123	\$ 24,469	11,624	\$(68,101)
2nd.	133,784	24,486	12,057	12,057
3rd.	137,235	25,458	12,714	12,714
4th.	<u>139,531</u>	<u>20,158</u>	<u>10,217</u>	<u>10,217</u>
Total	<u>\$542,673</u>	<u>\$ 94,571</u>	<u>46,612</u>	<u>\$(33,113)</u>
<u>1990</u>				
1st.	\$130,558	\$ 25,432	12,510	\$ 12,510
2nd.	133,479	25,278	13,213	13,213
3rd.	134,123	25,869	12,998	12,998
4th.	<u>136,938</u>	<u>24,001</u>	<u>11,185</u>	<u>11,185</u>
Total	<u>\$535,098</u>	<u>\$100,580</u>	<u>49,906</u>	<u>\$ 49,906</u>

Results of operations for the first three quarters of 1991 have been restated for the effect of the adoption of Statement of Financial Accounting Standards No. 106, "Employers" Accounting for Postretirement Benefits Other Than Pensions." (See Note 7 of Notes to Financial Statements). As a result of the restatement, net operating revenues decreased \$501,000, \$504,000, and \$506,000, and income before cumulative effect of change in accounting principle decreased \$298,000, \$298,000, and \$300,000, for the quarters ended March 31, June 30, and September 30, 1991 respectively.

- (10) LITIGATION AND CONTINGENCIES - The Company is a party to antitrust actions and various other claims, legal actions and complaints arising in the ordinary course of business. In the opinion of management, any monetary liability or financial impact to which the Company might be subject after final adjudication or settlement of these matters would not be material to the Company's financial position.
- (11) REGULATORY MATTERS - In June, 1990 the Public Service Commission (PSC) of the District of Columbia initiated Formal Case No. 850 to investigate the reasonableness of the authorized return on equity, rate of return and current charges and rates for the Company's telecommunications services. In February 1991, the Company applied for a \$43,415,000 rate increase (later reduced to \$39,000,000) and for the PSC to consider streamlined regulation.

On January 24, 1992, the PSC issued an order requiring a \$1,685,000 decrease in rates. The Company filed for reconsideration of the order on February 3, 1992. The PSC issued its final Order on March 6, 1992 (Order No. 9983) on the Company's requested \$39,000,000 rate increase in Formal Case No. 850. The PSC allowed a \$632,000 revenue increase to be effective March 14, 1992, and found a fair overall rate of return to be 10.34% based on a 12.5% return on equity.

- (12) TRANSACTIONS WITH AFFILIATES - The Company has contractual arrangements with an affiliated Company, Bell Atlantic Network Services, Inc. (NSI), for the provision of various centralized corporate, administrative, planning, financial and other services. These arrangements serve to fulfill the common needs of Bell Atlantic's operating telephone companies on a centralized basis rather than duplicate efforts in each company. In connection with these services, the Company recognized approximately \$94,619,000, \$88,280,000, and \$60,446,000 in operating costs for the years ended December 31, 1991, 1990, and 1989, respectively. In 1991, these charges included \$2,680,000, associated with NSI's adoption of Statement No. 106. In addition, the Company recognized \$27,124,000, representing the Company's proportionate share of NSI's accrued transition obligation under Statement No. 106. Also, included in these costs were \$7,673,000 in 1991, \$6,918,000 in 1990, and \$6,458,000 in 1989, billed to NSI by Bell Communications Research, Inc., another affiliated company owned jointly by the seven regional holding companies, and allocated to the Company.

The Company has an agreement with an affiliated company, Bell Atlantic Network Funding Corporation (BANFC), for the provision of short-term financing and cash management services. BANFC issues commercial paper and secures bank loans to fund the working capital requirements of the operating telephone companies and NSI, and invests funds in temporary investments on their behalf. In connection with this arrangement, the Company recognized \$1,587,000 and \$540,000 in interest expense in 1991 and 1990, respectively, and \$2,000 and \$191,000 in interest income in 1991 and 1990, respectively.

The Company received \$56,856,000 in rent revenues from and paid \$7,416,000 in rent expense to affiliated companies as a result of various intercompany billing arrangements in 1991. These amounts were \$52,847,000 and \$4,151,000, respectively, in 1990 and \$48,793,000 and \$4,722,000, respectively, in 1989.

On January 30, 1992, the Company declared a dividend in the amount of \$9,000,000 paid to Bell Atlantic on January 31, 1992.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY

SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1991

(Dollars in Thousands)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost -Note(a)	Retirements -Note(b)	Other Changes	Balance at End of Period
Land	\$ 7,740	\$ -	\$ -	\$ -	\$ 7,740
Buildings	144,558	8,082	1,287	-	151,353
Central Office Equipment	544,026	48,236	43,769	(942)	547,551
Telephone Instruments and Related Equipment	34,969	3,530	1,823	-	36,676
Pole Lines	3,232	148	19	-	3,361
Cable and Wiring	340,465	9,136	7,487	-	342,114
Conduit	56,154	803	59	-	56,898
Office Equipment and Furniture	194,895	38,847	18,766	-	214,976
Vehicles and Other Work Equipment	13,067	1,914	633	-	14,348
Other	<u>21,109</u>	<u>235</u>	<u>818</u>	<u>-</u>	<u>20,526</u>
Total In Service Note (c)	1,360,215	110,931	74,661	(942)	1,395,543
Plant Under Construction	11,195	1,047	1,476	-	10,766
Other	<u>2,957</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,957</u>
Total Plant, Property and Equipment	<u>\$1,374,367</u>	<u>\$111,978</u>	<u>\$ 76,137</u>	<u>\$ (942)</u>	<u>\$1,409,266</u>

The notes on F-24 are an integral part of this Schedule.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY

SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1990

(Dollars in Thousands)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost -Note(a)	Retirements -Note(b)	Other Changes	Balance at End of Period
Land	\$ 7,740	\$ -	\$ -	-	\$ 7,740
Buildings	120,117	28,286	3,845	-	144,558
Central Office Equipment	529,085	46,979	32,038	-	544,026
Telephone Instruments and Related Equipment	34,588	3,136	2,755	-	34,969
Pole Lines	3,136	136	40	-	3,232
Cable and Wiring	336,320	9,268	5,123	-	340,465
Conduit	55,085	1,081	12	-	56,154
Office Equipment and Furniture	166,296	41,155	12,556	-	194,895
Vehicles and Other Work Equipment	12,482	1,171	586	-	13,067
Other	<u>20,407</u>	<u>1,466</u>	<u>764</u>	<u>-</u>	<u>21,109</u>
Total In Service Note (c)	1,285,256	132,678	57,719	-	1,360,215
Plant Under Construction	18,581	(7,386)	-	-	11,195
Other	<u>2,957</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,957</u>
Total Plant, Property and Equipment	<u>\$1,306,794</u>	<u>\$125,292</u>	<u>\$ 57,719</u>	<u>-</u>	<u>\$1,374,367</u>

The notes on F-24 are an integral part of this Schedule.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY

SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1989

(Dollars in Thousands)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost -Note(a)	Retirements -Note(b)	Other Changes	Balance at End of Period
Land	\$ 7,740	\$ -	\$ -	\$ -	\$ 7,740
Buildings	107,466	12,791	140	-	120,117
Central Office Equipment	507,265	53,017	31,581	384	529,085
Telephone Instruments and Related Equipment	31,499	4,478	1,005	(384)	34,588
Pole Lines	3,014	157	35	-	3,136
Cable and Wiring	327,919	10,698	2,297	-	336,320
Conduit	53,551	1,554	20	-	55,085
Office Equipment and Furniture	139,542	36,843	10,089	-	166,296
Vehicles and Other Work Equipment	11,721	1,603	842	-	12,482
Other	<u>19,812</u>	<u>3,147</u>	<u>2,552</u>	<u>-</u>	<u>20,407</u>
Total In Service Note (c)	1,209,529	124,288	48,561	-	1,285,256
Plant Under Construction	19,110	(529)	-	-	18,581
Other	<u>2,958</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>2,957</u>
Total Plant, Property and Equipment	<u>\$1,231,597</u>	<u>\$123,759</u>	<u>\$48,561</u>	<u>\$ (1)</u>	<u>\$1,306,794</u>

The notes on F-24 are an integral part of this Schedule.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY
NOTES TO SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

- (a) These additions include (1) the original cost (estimated if not specifically determinable of reused material, which is concurrently credited to material and supplies, and (2) allowance for funds used during construction. Transfers between plant in service, plant under construction and other are include in Column C.
- (b) Items of plant, property and equipment are deducted from the property accounts when retired or sold at the amounts at which they are included therein, estimated if not specifically determinable.
- (c) The Company's provision for depreciation is principally based on the remaining life method and straight-line composite rates prescribed by the FCC. The remaining life method provides for the full recovery of the remaining net investment in plant, property and equipment. In 1989, the Company implemented changes in depreciation rates approved by the regulators. This ruling will more closely align the recovery of the Company's investment in plant, property and equipment with current estimates of its remaining economic useful life. For the years 1991, 1990 and 1989, depreciation expressed as a percentage of average depreciable plant was 7.00%, 7.00%, and 7.53%, respectively.